DOCKET SECTION

MPA-T-4

BEFORE THE
POSTAL RATE COMMISSION
WASHINGTON, D.C. 20268-0001

POSTAL RATE AND FEE CHANGES, 1997

Docket No. R97-1

DIRECT TESTIMONY
OF
SANDER A. GLICK
ON BEHALF OF
MAGAZINE PUBLISHERS OF AMERICA

I. Autobiographical Sketch

My name is Sander A. Glick. I am a Senior Analyst at Project Performance Corporation (PPC), a consulting firm based in Sterling, Virginia. PPC provides management, information technology, and environmental consulting services to private and public sector clients. The firm has grown rapidly since our inception in 1991; last year we were number 272 on the ***Inc. 500***, a compilation of the fastest growing private companies in America. Since joining the firm, I have performed economic and cost analysis for both private and governmental clients.

I attended the Maxwell School of Citizenship and Public Affairs at Syracuse University, where I received a Master of Public Administration degree in 1994, and Carleton College, where I received a BA, magna cum laude, in Physics in 1993. While at Syracuse University, I was a graduate assistant in the Center for Technology and Information Policy and assisted in developing and administering a National Science Foundation-funded survey of more than 500 companies regarding the costs and benefits of working with Federally-funded Research and Development laboratories.

Following my formal education, I joined PPC in 1994 as an Analyst. At the end of 1996, I was promoted to Senior Analyst. Since joining PPC, I have assisted the Department of Energy by developing methods for estimating the life-cycle cost of cleaning up nuclear weapon production sites and then collecting data to implement the analysis. I have also developed regulatory compliance cost estimates and reviewed cost estimates prepared by other cost estimators.

II. Purpose of Testimony and Summary Conclusions

United States Postal Service witness Schenk develops estimates of the attributable costs of Advance Deposit BRMAS-qualified BRM (Advance Deposit BRM) pieces, which is the basis for the six cent QBRM fee. In this testimony, I review her methodology and her mail flows. I use the same process as witness Schenk to develop a cost estimate for Advance Deposit BRM but make alternative and more reasonable assumptions, consistent with her interrogatory responses, regarding the Advance Deposit BRM mail flow. I also take into account the fact that 75 percent of this mail does not require delivery, so Advance Deposit BRM delivery costs are lower than for First-Class Mail as a whole.

Based upon these improvements to her analysis, I derive a unit attributable cost estimate for BRM pieces, above and beyond the costs already attributed to First-Class Mail, of 1.28 cents. Reflecting this unit attributable cost estimate, I propose a QBRM fee of two cents.

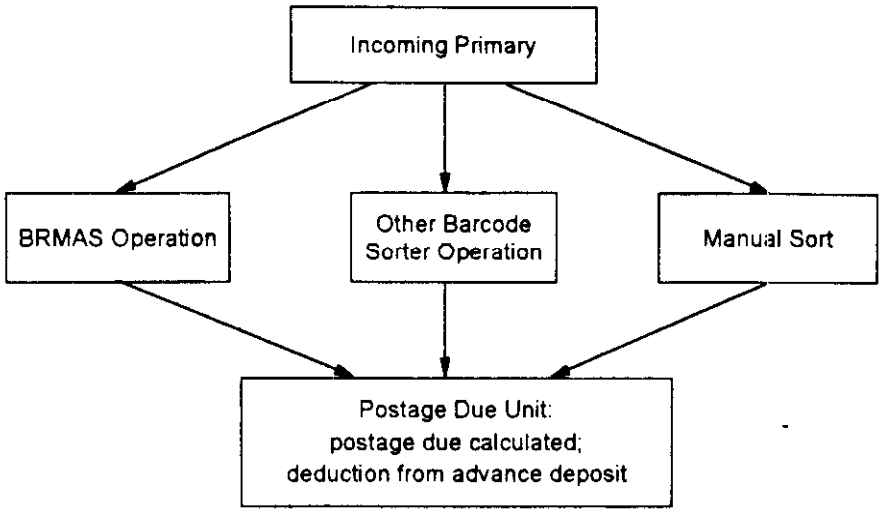
III. Witness Schenk's Methodology

Witness Schenk estimated "the test year costs of counting, rating, and billing for the Business Reply Mail (BRM) service, above and beyond the costs already attributed to First-Class Mail." USPS-T-27 at 2. To do this, she first assessed the mail flows for Advance Deposit BRM and other automation-compatible First-Class Mail and then applied unit cost differentials for the operations through which the mail flows.

Witness Schenk found that the major difference in mail flow is that, after the incoming primary sort, most non-BRMAS automation compatible mail receives its incoming secondary sort on a Delivery Barcode Sorter (DBCS) or Multiple Position Barcode Sorter (MPBCS), while Advance Deposit BRM

receives its incoming secondary sort in one of three ways: (1) in the BRMAS operation, (2) on another barcode sorter, or (3) manually - and then processed in the Postage Due Unit. Figure 1 illustrates the mail flow for Advance Deposit BRM.

Figure 1. Advance Deposit BRM Mail Flow (Exhibit USPS-27A)



Witness Schenk calculated the unit attributable cost of BRM as the difference between the weighted average cost of the three methods for sorting Advance Deposit BRM (including Postage Due Unit costs) and the cost for an incoming secondary sort for an automation-compatible piece of First-Class Mail (See Equation 1 below)[1]:

$$Cost_{unit} = \Sigma\ [(p_i * c_i)] - c_{AC} \quad (1)$$

where i = type of incoming secondary sort
p_i = percentage of BRMAS receiving sort type i
c_i = unit cost of type i sort
c_{AC} =unit cost of incoming secondary sort of automation compatible First-Class Mail.

[1] The attributable cost for an incoming secondary sort for an automation compatible piece of First-Class Presort Mail can be found by summing the weighted cost column for "Incoming Secondary" on Page 13 of Appendix I of USPS-T-25.

IV. Witness Schenk's Mail Flow Assumptions

Witness Schenk surveyed mail processing facilities to determine Base Year 1996 mail flows for Advance Deposit BRM. Her results, shown in Table 13 of LR-H-179, indicate that 14.2 percent of Advance Deposit BRM received its secondary sort in the BRMAS operation, 19.3 percent was on other barcode sorters, and 66.5 percent was sorted manually (See Table 1 below).[2]

Table 1. Generation of Final BRM Piece Counts

Source of Piece Counts	Percent of Volume
BRMAS Software Report	14.2
EOR Counts from Barcode Sorter	19.3
Manual Counts/Other	66.5

In calculating the Test Year unit attributable cost of Advance Deposit BRM, above and beyond that of First-Class Mail, witness Schenk made two inappropriate assumptions regarding how mail flows will change from Base Year 1996 to the Test Year. First, she assumed that the mail which would migrate from Advance Deposit BRM to PRM was entirely mail that, in the Base Year, was processed in the BRMAS operation. She makes this assumption despite her own statement to the contrary. When asked, "Please confirm that a higher percentage of BRM that is counted and rated in the BRMAS operation than of BRMAS-qualified mail that is not counted and rated in the BRMAS operation will migrate to PRM," she responded, "Not confirmed....Whether an organization is interested in QBRM or PRM will depend on a number of factors, including its willingness to prepay postage and whether it finds a monthly fee or a per-piece fee more advantageous financially" (MPA/USPS-T27-5c).

Second, she assumed that all Advance Deposit BRM not processed in the BRMAS operation was processed manually. She made this assumption because

[2] When source is "EOR counts from barcode sorter," the pieces were sorted on a barcode sorter. When source is "BRMAS Software Report", the pieces were sorted in the BRMAS operation.

she did not have an estimate of the cost of a barcode sort for Advance Deposit BRM. She did indicate, however, that if one were able to develop a unit cost for processing BRM on a barcode sorter, it should be used: "...it would be appropriate to include the cost of processing BRM in a barcode sorter operation, if costs could be developed" (Response to MPA/USPS-T27-2c).

V. Calculation of Unit Cost for Automated Sort

Even though the unit cost for a manual sort of First-Class Mail is 4.7 cents higher than the cost per sort for sorting First-Class Mail on a barcode sorter,[3] witness Schenk approximated the cost for sorting Advance Deposit BRM on a barcode sorter (including Postage Due Unit activities) as the cost for manually sorting Advance Deposit BRM (including Postage Due Unit activities).

In the absence of a bottom-up estimate of the cost for sorting Advance Deposit BRM on a barcode sorter and performing all associated Postage Due Unit activities, I develop a more reasonable upper bound estimate of the cost of an automated sort of Advance Deposit BRM (including Postage Due Unit activities) by subtracting 4.7 cents, the cost difference between a manual sort and a barcode sort of First-Class Mail, from the cost for manually sorting Advance Deposit BRM (See Equation 2 below).

$$c_{Barcode,BRM} = c_{Manual,BRM} - (c_{Manual,FCM} - c_{Barcode,FCM}) \quad (2)$$

where c=unit cost per sort
Barcode indicates barcode sort
Manual indicates manual sort
BRM indicates sort of BRM mail
FCM indicates sort of First-Class mail

[3] The unit cost for a manual sort from USPS-T-25, Appendix I, Page 13, Line "Manual/Auto Sites" is 5.4474 cents. The cost for an automated sort from USPS-T-25, Appendix I, Page 13, Line "DBCS First-Pass" is .7412 cents. The cost for a DBCS sort is an upper bound estimate because it has the highest unit cost of all BCSs shown on Page 13 of Appendix I of USPS-T-25.

Equation (2) yields a unit cost for a barcode sort (including costs for Postage Due Unit activities) of Advance Deposit BRM of 3.56 cents per sort. This is still an upper bound estimate of the cost for a barcode sort for two reasons:

- The depth of sort for a barcode sorter is deeper than the depth of sort of a manual sort.

- The estimate assumes that there is only one incoming secondary sort of BRM. If two incoming secondary sorts were required, the cost difference between manually sorting and automated sorting of Advance Deposit BRM would be twice as large.

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VI. Calculation of Delivery Cost Avoidance

Witness Schenk's response to MPA/USPS-T27-7 indicated that only 25 percent of BRM, as opposed to 66 percent for First-Class Mail, requires rural or city delivery. For this reason, the BRM delivery cost per piece is smaller than that for First-Class Mail as a whole. Table 2 calculates a 2.74 cent unit delivery cost difference between BRM and First-Class Mail (For more detail, refer to Exhibit MPA 4-2).

Table 2. Calculation of Delivery Cost Avoidance (in cents)

Item	First-Class Mail	BRM	Difference
Delivery Unit Cost	6.68	6.68	0
Percent Delivered	66%	25%	41%
Total Cost/Total Pieces	4.41	1.67	2.74

VII. Calculation of Attributable Cost for Advance Deposit BRM

As described earlier in my testimony, witness Schenk makes unreasonable assumptions to determine Test Year mail flows from Base Year flows. In fact, her interrogatory responses contradict the assumptions she made. For this reason, a more reasonable method for determining the attributable cost for Advance Deposit BRM would be to simply assume that Test Year mail flows will be exactly the same as Base Year mail flows. Using this assumption and the delivery cost avoidance calculated in Section VI, the Test Year attributable cost for Advance Deposit BRM is 1.28 cents (For more details, please refer to Exhibit MPA 4-1).

VIII. Determination of QBRM Fee

Based upon an analysis of pricing criteria and their application to the QBRM fee, witness Needham proposed a cost coverage of 108 percent. A two cent fee based upon my attributable cost estimate yields a cost coverage of 156 percent, which is a significantly higher contribution than that proposed by witness Needham. Thus, I believe that a two-cent fee for QBRM is reasonable.

Exhibit MPA 4-1. Alternate BRMAS Fee Development

BRMAS Coverage Factor	14.24%	[1]
Manual Sortation Factor	66.46%	[2]=1-[1]-[3]
Other Barcode Sorter Factor	19.30%	[3]
	Unit Cost	
BRMAS Processing	$0.0064	[4]
BRMAS Postage Due Unit	$0.0040	[5]
Manual Sort, Postage Due Unit	$0.0827	[6]
Barcode Sort, Postage Due Unit	$0.0356	[7]
Cost Avoidance (Inc. Sec. Sort for Automation Comp. Piece)	($0.0231)	[8]
Cost Avoidance (Delivery)	($0.0274)	[9]
Weighted Cost Per Piece	$0.0633	[10]=[1]*([4]+[5])+[2]*[6]+[3]*[7]
Net Cost Per Piece	$0.0128	[11]=[8]+[9]+[10]

[1] Coverage Factor, USPS-T-27 at 12.
[3] LR-H-179, Table 13
[4] Exhibit USPS-27C
[5] Exhibit USPS-27C
[6] Exhibit USPS-27C
[7]=[6]+[Inc. Sec. DBCS Unit Cost]-[Incoming Secondary Manual/Auto Sites Unit Cost] USPS-T-25, Appendix I, Page 16
[8] Exhibit USPS-27C
[9] Exhibit MPA 4-2

Exhibit MPA 4-2. Unit Delivery Cost Avoidance

Class/Subclass	FY 1998 Unit Cost (Cents)	Volume (000s)	Density	Delivered (000s)	Unit Cost per Piece Delivered (Cents)	
	[1]	[2]	[3]	[4]	[5]	
Single Piece Letters and Parcels	5.001	54,394,310	0.529	28,774,590	9.45	[a]
Single Piece Cards	4.357	2,546,540	0.735	1,871,707	5.93	[b]
Presort Letters	3.729	41,507,008	0.822	34,118,761	4.54	[c]
Presort Cards	2.837	2,551,684	0.726	1,852,523	3.91	[d]
Total First-Class Mail	4.408	100,999,542	0.660	66,617,580	6.68	[e]

	Percent Delivered		Unit Cost	
First-Class Mail	66%	[6]	4.41	[9]
BRM	25%	[7]	1.67	[10]
Difference	41%	[8]	2.74	[11]

[1] USPS-18A, Table A-6, Column (e)
[2] USPS-18A, Table A-6, Column (k)
[3] USPS-18A, Table A-5, Column (aa), Density=Pieces Delivered/Total Pieces
[4]=[2]*[3]
[5]=[1]/[3]
[6]=[3e]
[7] Response to MPA/USPS-T27-7
[8]=[6]-[7]
[9]=[6]*[5e]
[10]=[7]*[5e]
[11]=[10]-[9]

CERTIFICATE OF SERVICE

I hereby certify that I have this day served the foregoing document upon all participants of record in this proceeding in accordance with section 12 of the Rules of Practice.

James R. Oregan

December 30, 1997